

YEAR END TAX HOTLINE

2009

COMPLIMENTS OF:
HEGG ACCOUNTING

DONALD W. GOODWEILER, E.A.
don@heggaccounting.com

DAVID A. GREENE, E.A.
dave@heggaccounting.com

TROY J. GOODWEILER
troy@heggaccounting.com

7818 BIG SKY DRIVE MADISON WI 53719
(608) 662-8262

FAX (608) 662-8268

YOUR ENROLLED AGENT

STANDARD DEDUCTION

The standard deduction is not very standard anymore. It is still compared to itemizing and the larger taken but the standard is being expanded. For 2009 the standard deduction consists of the base amount (MFJ \$11,400, Single \$5,700 and HOH \$8,350) plus any amount added on because of age or blindness (MFJ \$1,100 Single \$1,400). To this we can now add up to \$1,000 in property tax paid during the year for a married couple or \$500 if single, the sales tax paid on a qualifying vehicle purchased after 2/16/09 and before 1/01/10 up to a cost per vehicle of \$49,500 plus any non-business casualty loss if incurred in a federally declared disaster area.

This standard deduction-which now has a separate schedule-is compared to your itemized deductions (medical, taxes, mortgage interest, donations and misc.) and the greater amount is subtracted from your income. This does mean it is important for everyone to keep track of property taxes paid, sales tax paid on new vehicles, and casualty losses.

GAMES OF CHANCE

Gambling rules have not changed. All wins are reportable with losses deductible up to the winnings on the federal return and no deduction for losses on the Wisconsin returns. The best kind of records

would be a journal showing the wins and losses by date. It is also helpful to have records to show where the money came from if you have a large loss. This might be the ATM with-drawl on the day of a large loss. IRS publication 529 lists the following helpful records to verify your losses.

Keno-copies of the keno tickets validated by the gambling establishment, copies of casino credit records, and copies of casino check cashing records

Slot machines-the machine number and a record of all winnings by date and time the machine was played

Table games-(e.g., blackjack, craps, poker, baccarat, roulette)- the number of the table, and casino player's card data indicating whether the credit was issued in the pit or at the cashier's cage

Bingo-a record of the number of games played, the cost of tickets purchased and amounts collected on winning tickets, plus any receipts from the place where the games were played

Racing-(e.g., horse, harness, dog)-a record of the races, amount of wagers, amount collected on winning tickets, and amounts lost on losing tickets, plus unredeemed tickets and payment records from the racetrack

Lotteries-a record of ticket purchases, dates, winnings, and losses, plus unredeemed tickets, payment slips, and winnings statements

PAYING TAXES ON CHILDREN

Children who are a dependent need to file a return if

- Total income exceeds \$950 if over \$300 is investment income or
- Total income exceeds \$5,669 from all sources or
- Has income from self-employment or some type of income subject to a penalty

The kiddie tax (child paying at parents' rate) applies to investment income for

- Any child under the age of 18 with more than \$1,900 or
- Any child 18 or older with more than \$1,900 investment and child's earned income is less than 50% of their own support.

CREDITS

Some credits to keep in mind

Retirement Savers Credit – allows a tax saving for putting money into a retirement account. The table on the top of pages 3 shows who can use the credit.

Energy Credits - covers 2009 and 2010

The maximum credit is \$1,500 (\$5,000 cost times 30%) for energy efficient exterior windows, doors, and skylights, heating and air conditioning, insulation, non electric water heaters and certain roofs. The maximum of \$1,500 is for both years together.

ROTH IRA/TRADITIONAL IRA

With 2010 fast approaching the amount of information on converting a Traditional IRA to a ROTH IRA will begin to fill the air waves and newsprint. There are certain advantages to a Roth IRA that have nothing to do with income taxes. There are no required minimum distributions, reducing potential estate taxes, funding for education expenses, ability to take distributions without causing more social security to become taxable and others but from an income tax standpoint if the tax rate is the same in retirement as now no tax advantage is gained. It should also be mentioned that if you convert you will incur a state penalty in Wisconsin unless the law is changed. Also note that if you convert and pay state taxes now and move to a non-taxable state or state with a lower tax rate you will have paid taxes that could have been saved. It is possible to move to a state with higher taxes than Wisconsin-they do exist-but if you eliminate the ones no one would move to anyway the choices are very limited.

If you convert to a Roth IRA in 2010 you have two years to pay the federal tax. You can also convert to a Roth in January 2010 and anytime before the tax due date of April 15, 2011 avoid the tax by unconvverting. The rules for after tax contribution to a 401K allow conversion because the rules are favorable it should be considered.

WISCONSIN CHANGES

While we are talking about Wisconsin we should mention some of the important changes in our state taxation.

Starting in 2009 up to \$5,000 in retirement income is exempt for individuals 65 or older with modest income-less than \$30,000 for MFJ. The social security pension will continue to be tax free in Wisconsin.

The medical insurance deduction was set to be expanded in Wisconsin this year but has now been delayed. The deduction in Wisconsin will remain at 100% of premiums paid for the self-employed and those employed with no employer provided health insurance, 67% for anyone with no employer and 10% for those with an employer paying part of the premiums but not all.

The domestic production activity deduction will not be allowed for Wisconsin returns starting in 2009

Capital gain exclusion for Wisconsin is reduced to 30% from 60%. Capital gains will be 70% taxable instead of 40%.

The top tax bracket will be raised to 7.75% from 6.75%.

2009 is the last year for the Farmland Tax Relief Credit.

“Willful Misclassification” Penalty for Construction Contractors Created

Any employer engaged in the construction of roads, bridges, highways, sewers, water mains, utilities, public buildings, factories, housing, or similar construction projects who willfully provides false information to the department, or who willfully and with intent to evade any withholding requirement, misclassifies or attempts to misclassify an individual who is an employee of the employer as a nonemployee shall be fined \$25,000 for each violation.

TABLE 1

Retirement Savings Credit AGI Limits for 2009

AGI Over AGI Not Over	Joint Returns		Head of Household		All Other Filers		% of Contribution
	AGI Over	AGI Not Over	AGI Over	AGI Not Over	AGI Over	AGI Not Over	
\$0	\$33,000	\$24,750	\$0	\$16,500	\$16,500	\$16,500	50%
\$33,000	\$36,000	\$2,700	\$24,750	\$18,000	\$16,500	\$18,000	20%
\$36,000	\$55,500	\$41,625	\$27,000	\$27,750	\$18,000	\$27,750	10%
\$55,500	---	---	\$41,625	---	\$27,750	---	0%

Source: Notice 2008-102, I.R.B. 2008-45 1106

TABLE 2

ROLLOVER CHART

9/3/2009

	Roll To									
	Roth IRA ¹	IRA (traditional)	SIMPLE IRA	SEP-IRA	457(b)	Qualified Plan ⁴ (pre-tax)	403(b) (pre-tax)	Designated Roth Account (401(k) or 403(b))		
<u>Roth IRA</u>	YES	NO	NO	NO	NO	NO	NO	NO		
<u>IRA (traditional)</u>	YES ²	YES	NO	YES	YES	YES	YES	NO		
<u>SIMPLE IRA</u>	YES ² , after two years	YES, after two years	YES	YES, after two years	YES ³ after two years	YES, after two years	YES, after two years	NO		
<u>SEP-IRA</u>	YES ³	YES	NO	YES	YES ³	YES	YES	NO		
<u>457(b)</u>	YES ² , after 12/31/07	YES	NO	YES	YES	YES	YES	NO		
<u>Qualified Plan⁴ (pre-tax)</u>	YES ² , after 12/31/07	YES	NO	YES	YES ³	YES	YES	NO		
<u>403(b) (pre-tax)</u>	YES ² , after 12/31/07	YES	NO	YES	YES ³	YES	YES	NO		
<u>Designated Roth Account (401(k) or 403(b))</u>	YES	NO	NO	NO	NO	NO	NO	Yes, if a direct trustee to trustee transfer		

¹Subject to income limits until December 31, 2009

²Must include in income

³Must have separate accounts

⁴Qualified Plans include, for example, Profit-Sharing, 401(k), Money Purchase, Defined Benefit plans

For more information regarding retirement plans and rollovers, visit [Tax Information for Retirement Plans Community](#).

Long term Care premiums continue to be a medical expense for the federal and a separate deduction on the Wisconsin return.

Some of you have already noticed that we are requiring more documentation when dealing with any of your tax records. We used to call to verify sending information to someone but now it needs to be in writing. We will also be using an engagement letter this year for the same reason. It spells out more clearly what we can and cannot do. The new rules concerning tax information will require more paperwork.

INVESTMENT ISSUES

The maximum capital loss allowed against other income is \$3,000. Gains and losses for the year are netted against each other first and any excess loss up to \$3,000 is used to offset other income. If the total net losses exceed the \$3,000 the excess is carried forward to the next year or years.

Losses will not be allowed if the stock you lost the money on is repurchased within 30 days after the sale date or if you purchased the same stock within 30 days prior to the sale. These Wash Sale rules also apply if your spouse does the buying and also covers your retirement accounts.

Losses between related parties are also not allowed.

Losses can only be deducted in the year they are incurred. If you own stocks, bonds or other assets that have become worthless the loss can only be used in the year it became worthless. Check your portfolio at year-end to determine if any of this applies. If a stock became worthless and was not deducted you have 7 years to amend.

There are also losses that can be considered theft losses. Some of the Ponzi schemes you have read about are not capital losses. Because the money was never invested, it was stolen, the loss is actually a casualty loss which in most cases is more valuable than a capital loss. There is no \$3,000 per year limit and the normal casualty loss reduction of 10% and \$100 does not apply.

For qualified dividends and capital gains the maximum tax rate continues at 15% for 2009 and 2010. That also means the rate is zero on both the dividends and capital gains if you are in any tax bracket below 25%.

If you do not recover your basis in an annuity contract get back less than you paid in-the loss is deductible as an itemized deduction in the year of death.

Bond premiums paid on purchase can be amortized as an itemized deduction by election or written off when sold if no election is made. On a tax-exempt bond no amortization is allowed.

RETIREMENT ISSUES

We have included a retirement rollover chart that depicts what accounts can be rolled over because in these times a lot of retirement accounts are being moved. See page 3, Table 2

The Required Minimum Distributions for the year of 2009 was suspended but to date we have heard nothing about 2010. This exception did not apply to defined benefit plans because there was no market decline in the benefit.

There are exceptions to early distributions from retirement accounts but the taxable part is still taxable. For all retirement accounts no penalty applies if the distribution is because of death, total disability, series of equal payments, certain medical expenses, IRS levy and qualified reservist payments. In addition there is no penalty on IRA distributions on certain medical insurance payments for the unemployed, qualified first time homebuyer and certain higher education expenses. For purposes of divorce there are also penalty exceptions.

Dave is out of the office from December 30, 2009 – January 13, 2010 and Don is out of the office from December 30, 2009 – January 11, 2010. If you have questions that need to be answered before the end of year, please call as soon as possible.

HAPPY HOLIDAYS!
Everyone at Hegg Accounting wishes you and yours a safe and Happy Holiday Season.